97th Congress, 2d Session - - - - - - House Document No. 97-157

THE ENTERPRISE ZONE TAX ACT OF 1982

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

PROPOSED LEGISLATION ENTITLED, "THE ENTERPRISE ZONE TAX ACT OF 1982"

MARCH 23, 1982.—Message and accompanying papers referred jointly to the Committees on Ways and Means and the Judiciary and ordered to be printed

---

U.S. GOVERNMENT PRINTING OFFICE

89-011 O WASHINGTON : 1982

H 780-4

LETTER OF TRANSMITTAL

To the Congress of the United States:

I am transmitting to the Congress today legislation entitled, "The Enterprise Zone Tax Act of 1982." This legislation authorizes the establishment of an Enterprise Zone program, which is an experimental, free market-oriented program for dealing with the severe problems of our Nation's economically-depressed areas.

In my January 26 State of the Union message, I indicated that we would propose legislation for a new effort to revive the decaying areas of America's inner cities and rural towns. We have now completed work on this new effort and it is embodied in the proposed "Enterprise Zone Tax Act." Therefore, I am requesting today that the bill be referred to the appropriate committees and I urge its early enactment.

THE CONCEPT OF ENTERPRISE ZONES

The Enterprise Zone concept is based on utilizing the market to solve urban problems, relying primarily on private sector institutions. The idea is to create a productive, free market environment in economically-depressed areas by reducing taxes, regulations and other government burdens on economic activity. The removal of these burdens will create and expand economic opportunity within the zone areas, allowing private sector firms and entrepreneurs to create jobs—particularly for disadvantaged workers—and expand economic activity.

Enterprise Zones are based on an entirely fresh approach for promoting economic growth in the inner cities. The old approach relied on heavy government subsidies and central planning. A prime example was the Model Cities Program of the 1960's, which concentrated government programs, subsidies and regulations in specific, depressed urban areas. The Enterprise Zone approach would remove government barriers freeing individuals to create, produce and earn their own wages and profits. In its basic thrust, Enterprise Zones are the direct opposite of the Model Cities Program of the 1960's.

Enterprise Zones will not require appropriations at the Federal level, except for necessary administrative expenses. States and cities will still have the option of allocating discretionary Federal funds for their Enterprise Zones if they desire, or to appropriate additional funds of their own for such zones.

Enterprise Zones must be more than just a Federal initiative. State and local contributions to these zones will be critically important in the selection of the zones, and probably determine whether individual zones succeed or fail. In the spirit of our new policy of Federalism, State and local governments will have broad flexibility to develop the contributions to their zones most suitable to local conditions and preferences.

THE ELEMENTS OF ENTERPRISE ZONES

The Enterprise Zone program includes four basic elements:

First, tax reduction at the Federal, State and local levels to lessen this obvious burden on economic activity.

Second, regulatory relief at the Federal, State and local levels to reduce burdens which can be equally costly.

Third, new efforts to improve local services, including experimentation with private alternatives to provide those services. Eliminating inefficiencies of monopolized government services and increasing reliance on the private sector are key parts of the overall Enterprise Zone theme. Experience has shown that these efforts can save taxpayers substantial sums while significantly improving services at the same time.

Finally, involvement in the program by neighborhood organizations. These organizations can contribute much to the improvement of Enterprise Zone neighborhoods. They can also help to ensure that local residents participate in the economic success of the zones.

By combining all these elements we will create the right environment to help revive our Nation's economically-depressed areas.

THE STRUCTURE OF THE ENTERPRISE ZONE PROGRAM

Title I of the Act describes the program structure and how the zones will be established.

The initial designation and establishment of each zone will depend on local leadership and initiative. To obtain the Federal incentives for Enterprise Zones, State and local governments must first nominate the zones within the eligible areas as defined by the Federal legislation.

These areas will include all areas in UDAG-eligible jurisdictions which have recently experienced significant unemployment, poverty or population loss. Based on these criteria, there will be more than 2,000 cities, rural areas and Indian reservations with Enterprise Zone eligible areas.

The Secretary of HUD will be authorized to designate up to 25 zones in each of three years for the application of the Federal incentives. The actual numbers designated will depend on the number and quality of the applications.

The Enterprise Zone program is, thus, a potential source of economic assistance to distressed areas of all types, shapes and sizes, all across the country. Rural areas as well as large urban areas will be eligible to become Enterprise Zones.

After State and local nomination, these governments will apply to the Secretary of HUD for Federal designation to allow the Federal incentives to apply to their zones.

Federal designation of nominated zones will not be automatic or routine. Rather, the Secretary will evaluate the various applications on a competitive basis, choosing the best applications for the limited number of Federal designations available each year. A key criterion in this competitive process will be the nature and strength of the State and local incentives to be contributed to the zones, consistent with the overall Enterprise Zone theme of creating an open market environment by removing government burdens. Other important factors will also be considered.

In evaluating State and local contribution packages, the Federal Government will be highly flexible. For example, the Secretary of HUD will not insist upon any particular item of tax or regulatory relief. A weakness of incentives in one area, such as tax relief, could be offset by greater strength in another area, such as regulatory relief. It should be remembered, however, that the incentive packages will be competitively evaluated against each other.

Each Enterprise Zone will last for the period chosen by the nominating State and local governments. The Federal incentives will apply to an approved zone for this entire period, up to a maximum of 20 years plus a 4-year, phase-out period.

THE FEDERAL INCENTIVES OF THE ENTERPRISE ZONE PROGRAM

The Federal Tax Incentives of the Enterprise Zone Program

Title II of the Act describes the Federal tax incentives to apply within Enterprise Zones, which include:

a 3- or 5-percent investment tax credit for capital investments in personal property in an Enterprise Zone;

a 10-percent tax credit for the construction or rehabilitation of commercial, industrial or rental housing structures within a zone;

a 10-percent tax credit to employers for payroll paid to qualified zone employees in excess of payroll paid to such employees in the year prior to zone designation, with a maximum credit of $1,500 per worker;

a special, strengthened tax credit to employers for wages paid to qualified zone employees who were disadvantaged individuals when hired, with the credit equal to 50 percent of wages in each of the first 3 years of employment, and declining by 10 percentage points in each year after that;

a 5-percent tax credit, up to $450 per worker to qualified zone employees for wages earned in zone employment;

the elimination of capital gains taxes for qualified property within Enterprise Zones;

the designation of suitable Enterprise Zone areas as Foreign Trade Zones, providing relief from tariffs and import duties for goods subsequently exported to other countries;

the continued availability of Industrial Development Bonds to small business in Enterprise Zones, even if the availability of such bonds is terminated elsewhere; and,

the extension of the operating loss carry-over period for Enterprise Zone businesses, and permission for Enterprise Zone tax credits to be carried over for this period as well.

The Federal tax reductions applying to Enterprise Zones will be substantial. They will include reductions for employers, employees, entrepreneurs and investors. They will include incentives for capital investment, for hiring workers, particularly disadvantaged workers, for increasing work effort, and for starting and building up new businesses. They will include reductions in corporate income taxes, individual income taxes and capital gains taxes.

The Treasury Department estimates that with this tax package the designation of 10 to 25 zones in the first year of the program will result in $124—$310 million in lost Federal tax revenues for that

year. The cost of the program will increase in future years as additional zones are designated and as zone activity increases.

Federal Regulatory Relief

Title III of the Act describes the Federal regulatory relief to apply within Enterprise Zones. Under these provisions, State and local governments will be authorized to request relief for their approved zones from any Federal regulation, unless it would directly violate a requirement imposed by statute. Federal regulatory bodies will be authorized to weigh these requests under Congressionally-mandated standards, and to relax these regulations when it is in the public interest to do so, given the goals of the Enterprise Zone program.

This special authority would expressly not apply, however, to any regulations to carry out a statute or Executive Order designed to protect any person against discrimination because of race, color, religion, sex, marital status, national origin, age or handicap. It would also expressly not cover any regulation whose relaxation would likely present a significant risk to the public safety, including environmental pollution. The minimum wage law would not be covered by this authority because it is specifically imposed and spelled out by statute.

It should be emphasized that there will be no authority for any Federal regulatory relief within an Enterprise Zone without a request for such relief from both the State and local governments governing the zone.

THE ROLE OF STATE AND LOCAL GOVERNMENTS

While these Federal incentives are substantial, strong State and local contributions to the zones will be necessary for the program to succeed.

These contributions can be from each of the four basic categories noted earlier: tax relief; regulatory relief; improved local services; and neighborhood organizations. More traditional urban efforts, such as job training, minority business assistance or infrastructure grants, can also be contributed to the zone.

Consistent with the Administration's policy of Federalism, the Federal Government will not dictate to State and local governments what they must contribute to the zones. The program is designed for creative and innovative experiments by State and local governments within the zone areas. The program retains the flexibility for these governments to tailor their contributions to suit local needs and preferences.

The State and local contributions to the zones need not be costly. Regulatory relief, service improvements through privatization, and private sector involvement all entail no budgetary cost.

Even the cost of State and local tax relief should be modest because of the weak economic activity currently existing in potential Enterprise Zone areas. If the program is successful in stimulating new economic activity, these losses will be substantially offset by increased revenues from the new activity, State and local expenditures would be reduced as individuals who formerly received government aid are employed in the zone.

The legislation we advance today is based on the pathbreaking work of many Members from both sides of the aisle who offered Enterprise Zone bills in prior sessions of Congress. We commend these efforts and anticipate that these innovative individuals will work for early, bipartisan passage of this legislation.

More than government expenditures and subsidies, residents of economically-depressed areas need opportunities. This is the focus of the Enterprise Zone program. The program will identify and remove government barriers to entrepreneurs who can create jobs and economic growth. It will spark the latent talents and abilities already in existence in our Nation's most depressed areas. This bold, new concept deserves to be given a chance to work. As I said in my State of the Union Address, some will say our mission is to save free enterprise, but, I say that with your help, we must free enterprise so that together we can save America.

RONALD REAGAN.

THE WHITE HOUSE, *March 23, 1982.*

S. _____ or H.R. _____

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; AMENDMENT OF 1954 CODE.

(a) SHORT TITLE.--This Act may be cited as the "Enterprise Zone Tax Act of 1982".

(b) AMENDMENT OF 1954 CODE.--Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

TITLE I--DESIGNATION OF ENTERPRISE ZONES

SEC. 101. DESIGNATION OF ZONES.

(a) GENERAL RULE.--Chapter 80 (relating to general rules) is amended by adding at the end thereof the following new subchapter:

"Subchapter C--Designation of Enterprise Zones

"Sec. 7871. Designation.

"(a) DESIGNATION OF ZONES.--

"(1) ENTERPRISE ZONES DEFINED.--For purposes of this title, the term 'enterprise zone' means--

"(A) any area in the United States which is nominated by one or more local governments and the State in which it is located,

"(B) which the Secretary of Housing and Urban Development, after consultation with the Secretaries of Agriculture, Commerce, Labor and the Treasury, the Director of the Office of Management and Budget, and the Administrator of the Small Business Administration, and, in the case of an

enterprise zone on an Indian reservation, the Secretary of the Interior, designates to be an enterprise zone.

"(2) LIMITATIONS ON DESIGNATION.--

"(A) Publication of regulations.--Prior to designating any area as an enterprise zone, the Secretary of HUD shall prescribe by regulation after consultation with the officials described in paragraph (1)(B)--

"(i) the procedures for nomination,

"(ii) the parameters relating to the size and population characteristics of an enterprise zone,

"(iii) other standards which a nominated area must meet to be designated as an enterprise zone, and

"(iv) the manner in which nominated areas will be compared based on the criteria specified in subsection (d) and the other factors specified in subsection (e).

"(B) TIME LIMITATIONS.--The Secretary of Housing and Urban Development may designate areas as enterprise zones only during the period beginning on the effective date of the regulations described in paragraph (2) (A), but not later than January 1, 1983, and ending on the final day of the thirty-sixth full calendar month following such date.

"(C) NUMBER OF DESIGNATIONS.--During each of the 12 month periods following the effective date of such regulations, the Secretary of Housing and Urban Development shall designate not more than 25 nominated areas as enterprise zones.

"(D) PROCEDURAL RULES.--The Secretary of Housing and Urban Development shall not make any designation under paragraph (1)--

"(i) unless the local government and the State in which the nominated area is located have the statutory authority to nominate such area for designation as an enterprise zone and to make the State and

local commitments under subsection (d), and provide assurances satisfactory to the Secretary of Housing and Urban Development that such commitments will be fulfilled,

"(ii) unless a nomination therefor is submitted in such manner and in such form, and contains such information, as the Secretary of Housing and Urban Development shall by regulations prescribe,

"(iii) unless the Secretary of Housing and Urban Development determines that such information is reasonably accurate, and

"(iv) unless the Secretary determines that no portion of the area nominated is already included in an enterprise zone or in an area nominated as an enterprise zone.

"(3) NOMINATION PROCESS--

"(A) STATE AND LOCAL NOMINATION--A nomination

under this subsection shall be made first by a local government, followed by confirming nomination by the State government, or first by the State government, followed by confirming nomination by the local government.

"(B) INDIAN RESERVATIONS--In the case of a nominated enterprise zone on an Indian reservation, the reservation governing body as determined by the Secretary of Interior shall be deemed to be both the State and local government for such reservation.

"(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.--

"(1) IN GENERAL.--Any designation of an area as an enterprise zone shall remain in effect during the period beginning on the date of the designation and ending on the earlier of--

"(i) December 31 of the twenty-fourth year after such date,

"(ii) the date designated by the approving State and local governments as set forth in their nomination

application, or

"(iii) the date the Secretary of Housing and Urban Development revokes such designation under paragraph (2).

"(2) REVOCATION OF DESIGNATION.--The Secretary of Housing and Urban Development, after consultation with the officials described in subsection (a)(1)(B), may revoke the designation of an area if the Secretary of Housing and Urban Development determines that the local government or the State in which it is located is not complying substantially with the State and local commitments described in subsection (d).

"(c) AREA REQUIREMENTS.--

"(1) IN GENERAL.--The Secretary of Housing and Urban Development may make a designation of any area under subsection (a) (1) only if--

"(A) the area is within the jurisdiction of the local government,

"(B) the boundary of the area is

continuous,

"(C) the area--

"(i) has a population, as determined under the most recent census, of at least--

"(I) 4,000 if any portion of such area is located within a metropolitan statistical area (within the meaning of section 103A (1)(4)(B)) with a population of 50,000 or greater, or

"(II) 2,500 in any other case, or

"(ii) is entirely within an Indian reservation (as determined by the Secretary of the Interior), and

"(D) the area meets the requirements of paragraphs (2) and (3).

"(2) ELIGIBILITY REQUIREMENTS.--For purposes of paragraph (1), an area meets the requirements of

this paragraph if the Secretary of Housing and Urban Development determines that--

"(A) the area is one of pervasive poverty, unemployment, and general distress, and

"(B) the area is located wholly within an area which meets the requirements for Federal assistance under section 119 of the Housing and Community Development Act of 1974, as in effect on the date of enactment.

"(3) UNEMPLOYMENT, POVERTY, ETC. REQUIREMENTS.--An area meets the requirements of this paragraph if--

"(A) the annual average unemployment, as determined by the most recently available data from the Bureau of Labor Statistics, was at least one and one-half times the national average for that period,

"(B) the area has a poverty rate of 20 percent or more for each census tract, minor civil division or census county division as determined by the most recently

available census data,

"(C) at least 70 percent of the households living in the area have incomes below 80 percent of the median income of households of the local government (determined in the same manner as under section 119(b)(2) of the Housing and Community Development Act of 1974); or

"(D) the population of such area decreased by 20 percent or more between 1970 and 1980, as derived from census data.

"(d) REQUIRED STATE AND LOCAL COMMITMENTS.--

"(1) IN GENERAL.--No area shall be designated as an enterprise zone unless the local government and the State in which it is located agree in writing that during any period during which the area is an enterprise zone, such governments will follow a course of action designed to reduce the various burdens borne by employers or employees in such area.

"(2) COURSE OF ACTION.--A course of action under paragraph (1) may be implemented by both such

governments and private nongovernmental entities, may be funded from proceeds of any Federal program, and may include, but is not limited to--

"(A) a reduction of tax rates or fees applying within the enterprise zone,

"(B) an increase in the level or efficiency of local services within the enterprise zone (particularly through experimentation with providing such services by nongovernmental entities),

"(C) actions to reduce, remove, simplify or streamline governmental requirements applying within the enterprise zone, and

"(D) involvement in the program by private entities, organizations, neighborhood associations and community groups, particularly those within the nominated zone area, including a commitment from such private entities to provide jobs and job training for, and technical, financial, or other assistance to, employers, employees and residents of the nominated zone area.

"(e) PRIORITY OF DESIGNATION--In choosing nominated zones for designation, the Secretary of Housing and Urban Development shall give special preference to those zones with respect to which the strongest and highest quality contributions described in subsection (d) have been promised as part of the course of action, taking into consideration the fiscal ability of the nominating State and local governments to provide tax relief. The Secretary shall also give preference to:

"(1) those nominated zones with respect to which the strongest and highest quality contributions other than those described in subsection (d) have been promised as part of the course of action,

"(2) those nominated zones with respect to which the most effective and enforceable guarantees have been provided by the nominating State and local governments that their proposed course of action will actually be carried out for the duration of the enterprise zone designation,

"(3) those nominated zones with high levels of poverty, unemployment and general distress, particularly those in proximity to concentrations

of disadvantaged workers or long-term unemployed individuals and with strong likelihood that zone residents who satisfy these criteria will receive jobs in the zone,

"(4) those nominated zones whose size and location will stimulate primarily new economic activity and minimize unnecessary tax losses to the Federal government,

"(5) those nominated zones with respect to which private entitites have made the most substantial commitments in additional sources and contributions, including the creation of new or expanded business activities, and

"(6) those nominated zones which best exhibit such other factors to be determined by the Secretary of Housing and Urban Development, as are

"(i) consistent with the intent of the enterprise zone program, and

"(ii) important to minimizing the unnecessary loss of tax revenues to the Federal Government.

(f) DEFINITIONS AND SPECIAL RULE.--For purposes of this section--

"(1) GOVERNMENTS.--If more than one government seeks to nominate an area as an enterprise zone, any reference to, or requirement of, this section shall apply to all such governments.

"(2) STATES.--For purposes of this section, the term 'State' shall include the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands and the possessions of the United States.

"(3) LOCAL GOVERNMENT--For purposes of this section, the term "local government" shall include the city, town, township, parish, village, or other form of municipal government when the nominated zone is within an incorporated area, and the county government when the nominated zone is within an unincorporated area."

(b) CONFORMING AMENDMENT.--The table of subchapters for chapter 80 is amended by adding at the end thereof the following new item:

"Subchapter C. Designation of enterprise zones".

Sec. 102. INTERACTION WITH OTHER FEDERAL PROGRAMS.

(a) PROPERTY TAX REDUCTIONS.--Any reduction of taxes under any required program of local commitment under section 7871(d) of the Internal Revenue Code of 1954 shall be disregarded in determining the eligibility of a State or local government for, or the amount or extent of, any assistance or benefits under any law of the United States.

(b) Designation of an enterprise zone under section 7871 shall not constitute approval of a Federal or federally assisted program or project as those terms are used in the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 U.S.C 4601), and no person displaced from real property located in an enterprise zone designated under such section shall have any rights or be entitled to any benefit pursuant to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 as a result of such designation.

TITLE II--FEDERAL INCOME TAX INCENTIVES

Subtitle A--Credits for Employers and Employees

SEC. 201. CREDITS FOR ENTERPRISE ZONE EMPLOYERS.

(a) CREDIT FOR INCREASED ENTERPRISE ZONE EMPLOYMENT.--Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable) is amended by inserting immediately before section 45 the following new sections:

"SEC. 44H. CREDIT FOR INCREASED ENTERPRISE ZONE EMPLOYMENT.

"(a) IN GENERAL.--There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 10 percent of the qualified increased employment expenditures of the taxpayer for the taxable year.

"(b) QUALIFIED INCREASED EMPLOYMENT EXPENDITURES DEFINED.--For purposes of this section, the term 'qualified increased employment expenditures' means the amount by which qualified wages paid or incurred by the employer during the taxable year to qualified employees

exceeds the base period wages.

"(c) QUALIFIED WAGES DEFINED.--For purposes of this section--

"(1) IN GENERAL.--Except as otherwise provided in this subsection, the term 'qualified wages' has the meaning given to the term 'wages' by subsection (b) of section 3306, in an amount which does not exceed 2 1/2 times the dollar limitation contained in such section for any employee.

"(2) REDUCTION FOR CERTAIN AMOUNTS.--For purposes of this section, the wages paid or incurred by an employer shall not include--

"(A) the the amount of any federally funded payments the employer receives or is entitled to receive for on-the-job training of such individual for such period, or

"(B) any amount claimed as a credit under section 44I with respect to such period.

"(d) QUALIFIED EMPLOYEE DEFINED.--

"(1) IN GENERAL.--For purposes of this

section, the term 'qualified employee' means an individual--

"(i) at least 90 percent of whose services for the taxpayer during the taxable year are directly related to the conduct of the taxpayer's trade or business located in an enterprise zone, and

"(ii) who performs at least 50 percent of his services for the taxpayer during the taxable year in an enterprise zone.

"(2) EXCEPTIONS.--The term 'qualified employee' shall not include an individual with respect to whom the employer claims any credit under section 40 (relating to expenses of work incentives programs) or 44B (relating to credit for employment of certain new employees) for such period.

"(e) BASE PERIOD WAGES DEFINED.--For purposes of this section, the term "base period wages" means wages paid during the 12 calendar month period ending prior to the enterprise zone designation under section 7871,

which would have been qualified wages had such designation been in effect for such period. Base period wages will be zero for any employer not engaged in an active trade or business in such area at any time during such 12 month period.

"(f) LIMITATIONS.--

"(1) SUBCHAPTER S CORPORATIONS.--In case of an electing small business coporation (as defined in section 1371)--

"(A) the qualified wages for each taxable year shall be apportioned pro rata among the persons who are shareholders of such corporation on the last day of such taxable year, and

"(B) any person to whom any qualified wages have been apportioned under paragraph (A) shall be treated (for purposes of this subpart) as the employer with respect to such expenses.

"(2) ESTATES AND TRUSTS.--In the case of an estate or trust--

"(A) the qualified wages for any taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each, and

"(B) any beneficiary to whom any qualified wages have been apportioned under paragraph (A) shall be treated (for purposes of this subpart) as the employer with respect to such wages.

"(3) LIMITATIONS WITH RESPECT TO CERTAIN PERSONS.--In the case of--

"(A) an organization to which section 593 applies,

"(B) a regulated investment company or a real estate investment trust subject to taxation under subchapter M (section 851 and following), and

"(C) a cooperative organization described in section 1381(a),

rules similar to the rules provided in subsection (e)

and (h) of section 46 shall apply under regulations presribed by the Secretary.

"(g) PHASE OUT OF CREDIT.--The credit specified in subsection (a) will be reduced to 7 1/2 percent in the taxable year of the taxpayer in which the twenty-first anniversary of the enterprise zone designation under section 7871 falls, 5 percent in the next subsequent taxable year, 2 1/2 percent in the second subsequent taxable year and zero thereafter.

"(h) ADJUSTMENTS FOR CERTAIN ACQUISITIONS, ETC.--Under regulations prescribed by the Secretary--

"(1) ACQUISITIONS.--If an employer acquires the major portion of a trade or business of another person (hereinafter in this paragraph referred to as the 'predecessor') or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this subpart for any calendar year ending after such acquisition, the amount of qualified wages and base period wages deemed paid by the employer during periods before such acquisition shall be increased by so much of such wages paid by the predecessor with respect to the acquired trade or business as is attributable to the portion of such trade or

business acquired by the employer.

"(2) DISPOSITIONS.--

"(A) If an employer disposes of the major portion of any trade or business of the employer or the major portion of a separate unit of a trade or business of the employer in a transaction to which paragraph (1) applies, and

"(B) the employer furnishes the acquiring person such information as is necessary for the application of paragraph (1),

then, for purposes of applying this subpart for any calendar year ending after such disposition, the amount of qualified wages or base period wages deemed paid by the employer during periods before such disposition shall be decreased by so much of such wages as is attributable to such trade or business or separate unit.

"(i) SPECIAL RULES FOR CONTROLLED GROUPS.--

"(1) CONTROLLED GROUP OF CORPORATIONS.--For purposes of this section, all employees of all

corporations which are members of the same controlled group of corporations shall be treated as employed by a single employer. In any such case, the credit (if any) allowable by section 44H to each such member shall be determined by reference to its proportionate share of the qualified wages giving rise to such credit. For purposes of this subsection, the term "controlled group of corporations" has the meaning given to such term by section 1563(a), except that--

"(A) "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears in section 1563(a)(1), and

"(B) the determination shall be made without regard to subsections (a)(4) and (e)(3)(C) of section 1563.

"(2) EMPLOYEES OF PARTNERSHIPS, PROPRIETORSHIPS, ETC., WHICH ARE UNDER COMMON CONTROL.--For purposes of this section, under regulations prescribed by the Secretary--

"(A) all employees of trades or businesses (whether or not incorporated)

which are under common control shall be treated as employed by a single employer, and

"(B) the credit (if any) allowable by section 44H with respect to each trade or business shall be determined by reference to its proportionate share of the qualified wages giving rise to such credit.

The regulations prescribed under this paragraph shall be based on principles similar to the principles which apply in the case of paragraph (1).

"(j) PERIODS OF LESS THAN A YEAR.--If designation of an area as an enterprise zone under section 7871 occurs, expires or is revoked on a date other than the first or last day of the taxable year of the taxpayer, or in the case of a short taxable year--

"(1) the limitation specified in subsection (c)(1), and the base period wages determined under subsection (e), shall be adjusted on a pro rata basis (based upon the number of days), and

"(2) the reduction specified in subsection

(c)(2) and the 50 percent test set forth in subsection (d)(1), shall be determined by reference to the portion of the taxable year during which the designation of the area as an enterprise zone is effective.

"(k) APPLICATION WITH OTHER CREDITS.--The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter for such taxable year, reduced by the sum of the credits allowable under section 44I or any section of this subpart having a lower number or letter designation than this section, other than the credits allowable by sections 31, 39, and 43. For purposes of the preceding sentence, the term "tax imposed by this chapter" shall not include any tax treated as not imposed by this chapter under the last sentence of section 53(a).

"(l) ENTERPRISE ZONE.--The term 'enterprise zone' means an area for which designation as an enterprise zone is in effect under section 7871.

"SEC. 44I.--CREDIT FOR EMPLOYMENT OF CERTAIN DISADVANTAGED INDIVIDUALS IN AN ENTERPRISE ZONE.

"(a) IN GENERAL.--There shall be allowed as a

credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of:

"(1) 50 percent of qualified years one-three wages,

"(2) 40 percent of qualified year four wages,

"(3) 30 percent of qualified year five wages,

"(4) 20 percent of qualified year six wages, and

"(5) 10 percent of qualified year seven wages.

"(b) QUALIFIED WAGES DEFINED--

"(1) IN GENERAL.--For purposes of this section, the term 'qualified wages' means the wages paid or incurred by the employer during taxable year to qualified disadvantaged individuals reduced by the amount of any Federally funded payments the employer receives or is entitled to receive for on-the-job training of such individuals for such period.

"(2) QUALIFIED YEARS ONE-THREE WAGES.--The

term 'qualified years one-three wages' means, with respect to any individual, qualified wages received during the 36 month period beginning with the day the individual begins work for the employer within an enterprise zone, (or, in the case of a vocational rehabilitation referral, the day the individual begins work for an employer within an enterprise zone on or after the beginning of such individual's rehabilitation plan).

"(3) QUALIFIED YEAR FOUR WAGES.--The term 'qualified year four wages' means, with respect to any individual, the qualified wages attributable to services rendered during the 12 month period beginning on the day after the last day of the period with respect to such individual determined under paragraph (2).

"(4) QUALIFIED YEAR FIVE WAGES.--The term 'qualified year five wages' means, with respect to any individual, the qualified wages attributable to services rendered during the 12 month period beginning on the day after the last day of the period with respect to such individual determined under paragraph (3).

"(5) QUALIFIED YEAR SIX WAGES.--The term

'qualified year six wages' means, with respect to any individual, the qualified wages attributable to services rendered during the 12 month period beginning on the day after the last day of the period with respect to such individual determined under paragraph (4).

"(6) QUALIFIED YEAR SEVEN WAGES.--The term 'qualified year seven wages' means, with respect to any individual, the qualified wages attributable to services rendered during the 12 month period beginning on the day after the last day of the period with respect to such individual determined under paragraph (5).

"(7) BREAKS IN SERVICE.--With respect to any individual, the time periods described in paragraphs (3) through (6) will not take into account any period of time during which such individual is unemployed.

"(c) QUALIFIED DISADVANTAGED INDIVIDUAL.--

"(1) IN GENERAL.--For purposes of this section, the term 'qualified disadvantaged individual' means an individual--

"(A) who is a qualified employee within the meaning of section 44H (d),

"(B) who is hired by the employer after the designation of the area in which services were performed as an enterprise zone (under section 7871), and

"(C) who is described in paragraph (2).

"(2) CATEGORIES OF DISADVANTAGED INDIVIDUALS--For purposes of paragraph (1), the following individuals are treated as disadvantaged individuals:

"(A) a vocational rehabilitation referral,

"(B) an economically disadvantaged individual,

"(C) an eligible foster child,

"(D) an SSI recipient,

"(E) a general assistance recipient,

"(F) an eligible handicapped individual, or

"(G) an eligible AFDC recipient.

"(3) VOCATIONAL REHABILITATION REFERRAL.--The term 'vocational rehabilitation referral' means any individual who is certified by the designated local agency as--

"(A) having a physical or mental disability which, for such individual, constitutes or results in a substantial handicap to employment, and

"(B) having been referred to the employer upon completion of (or while receiving) rehabilitative services pursuant to--

"(i) an individualized written rehabilitation plan under a State plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973, or

"(ii) a program of vocational rehabilitation carried out under chapter

31 of title 38, United States Code.

"(4) ECONOMICALLY DISADVANTAGED INDIVIDUAL.--The term 'economically disadvantaged individual' means any individual who is certified by the designated local agency as being a member of a family that had an income during the 6 months preceding the month in which such determination occurs that, on an annual basis, was equal to or less than that which an eligible family with no income would have received in food stamps plus AFDC benefits. Any such determination shall be valid for the 45-day period beginning on the date such determination is made.

"(5) FOSTER CHILDREN.--The term 'eligible foster child' means any individual who is certified by the designated local agency as receiving State or local government benefits under a program to assist foster children.

"(6) SSI RECIPIENTS.--The term 'SSI recipient' means any individual who is certified by the designated local agency as receiving supplemental security income benefits under title XVI of the Social Security Act (including supplemental security income benefits of the type described in

section 1616 of such Act or section 212 of Public Law 93-66) for any month ending in the preemployment period, or who would have qualified to receive such benefits had such individual applied for them.

"(7) GENERAL ASSISTANCE RECIPIENTS.--

"(A) IN GENERAL.--The term 'general assistance recipient' means any individual who is certified by the designated local agency as receiving assistance under a qualified general assistance program for any period of not less than 30 days ending within the preemployment period, or who would have qualified to receive such assistance had such individual applied for it.

"(B) QUALIFIED GENERAL ASSISTANCE PROGRAM.--The term 'qualified general assistance program' means any program of a State or a political subdivision of a State--

"(i) which provides general assistance or similar assistance which--

"(I) is based on need, and

"(II) consists of money payments, and

"(ii) which is designated by the Secretary (after consultation with the Secretary of Health and Human Services) as meeting the requirements of clause (i).

"(8) HANDICAPPED INDIVIDUALS.--In cases permitted by regulations prescribed by the Secretary, the term 'eligible handicapped individual' means any individual who is certified by the designated local agency--

"(A) as disabled and living at home, or

"(B) who is institutionalized or receiving services in, or is a client of, a sheltered workshop, prison, hospital or similar institution, or in community care.

"(9) ELIGIBLE AFDC RECIPIENTS.--The term 'eligible AFDC recipient' means an individual who has been certified by the designated local agency

as being eligible for financial assistance under part A of title IV of the Social Security Act and as having continually received such financial assistance during the 90-day period which immediately precedes the date on which such individual is hired by the employer, or who would have received such assistance had such individual applied for it.

"(10) PREEMPLOYMENT PERIOD.--The term 'preemployment period' means the 60-day period ending on the hiring date.

"(11) HIRING DATE.--The term 'hiring date' means the day the individual is hired by the employer.

"(12) DESIGNATED LOCAL AGENCY.--The term 'designated local agency' means a State employment security agency established in accordance with the Act of June 6, 1933, as amended (29 U.S.C. 49-49n).

"(13) SPECIAL RULES FOR CERTIFICATIONS.--

"(A) IN GENERAL.--An individual shall not be treated as a qualified disadvantaged individual unless, on or before the day on

which such individual begins work for the employer, the employer--

"(i) has received a certification from a designated local agency that such individual is a qualified disadvantaged, individual, or

"(ii) has requested in writing such certification from the designated local agency.

"(B) INCORRECT CERTIFICATIONS.--If--

"(i) an individual has been certified as a qualified disadvantaged, individual, and

"(ii) such certification is incorrect because it was based on false information provided by such individual, the certification shall be revoked and wages paid by the employer after the date on which notice of revocation is received by the employer shall not be treated as qualified wages.

"(d) SPECIAL RULES--

"(1) CONTROLLED GROUP OF CORPORATIONS.--For purposes of this section, all employees of all corporations which are members of the same controlled group of corporations shall be treated as employed by a single employer. In any such case, the credit (if any) allowable by section 44I to each such member shall be determined by reference to its proportionate share of the qualified wages giving rise to such credit. For purposes of this subsection, the term "controlled group of corporations" has the meaning given to such term by section 1563(a), except that--

"(A) 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears in section 1563(a)(1), and

"(B) the determination shall be made without regard to subsections (a)(4) and (e)(3)(C) of section 1563.

"(2) EMPLOYEES OF PARTNERSHIPS, PROPRIETORSHIPS, ETC., WHICH ARE UNDER COMMON CONTROL.--For purposes of this section, under regulations prescribed by the Secretary--

"(A) all employees of trades or businesses (whether or nor incorporated) which are under common control shall be treated as employed by a single employer, and

"(B) the credit (if any) allowable by section 44I with respect to each trade or business shall be determined by reference to its proportionate share of the qualified wages giving rise to such credit.

The regulations prescribed under this paragraph shall be based on principles similar to the principles which apply in the case of paragraph (1).

"(3) ACQUISITIONS--Under regulations prescribed by the Secretary, if an employer acquires of the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the 'predecessor') or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section (other than subsection (e)) for any calendar year ending after such acquisition, the employment relationship between an employee and an employer shall not be treated as

terminated if the employee continues to be employed in such trade or business.

"(e) EARLY TERMINATION OF EMPLOYMENT BY EMPLOYER, ETC.

"(1) GENERAL RULE. Under regulations prescribed by the Secretary, if the employment of any employee with respect to whom qualified wages are taken into account under subsection (a) is terminated by the taxpayer at any time during the first 270 days of such employment (whether or not consecutive) or before the close of the 270th calendar day after the day in which such employee completes 90 days of employment with the taxpayer, the tax under this chapter for the taxable year in which such employment is terminated shall be increased by an amount (determined under such regulations) equal to the credit allowed under subsection (a) for such taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to such employee.

"(2) SUBSECTION NOT TO APPLY IN CERTAIN CASES.

"(A) IN GENERAL.--Paragraph (1) shall not

apply to--

"(i) a termination of employment of an employee who voluntarily leaves the employment of the taxpayer,

"(ii) a termination of employment of an individual who, before the close of the period referred to in paragraph (1), becomes disabled to perform the services of such employment, unless such disability is removed before the close of such period and the taxpayer fails to offer reemployment to such individual,

"(iii) a termination of employment of an individual, if it is determined under the applicable State unemployment compensation law that the termination was due to the misconduct of such individual, or

"(iv) a termination of employment of an individual due to a substantial reduction in the trade or business operations of the taxpayer.

"(B) CHANGE IN FORM OF BUSINESS, ETC.--For purposes of paragraph (1), the employment relationship between the taxpayer and an employee shall not be treated as terminated--

"(i) by a transaction to which section 381(a) applies, if the employee continues to be employed by the acquiring corporation, or

"(ii) by reason of a mere change in the form of conducting the trade or business of the taxpayer, if the employee continues to be employed in such trade or business and the taxpayer retains a substantial interest in such trade or business.

"(3) SPECIAL RULE.--Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit allowable under subpart A.

"(f) LIMITATIONS.--

"(1) SUBCHAPTER S CORPORATIONS.--In case of an electing small business coporation (as defined in

section 1371)--

"(A) the qualified wages for each taxable year shall be apportioned pro rata among the persons who are shareholders of such corporation on the last day of such taxable year, and

"(B) any person to whom any qualified wages have been apportioned under paragraph (A) shall be treated (for purposes of this subpart) as the employer with respect to such expenses.

"(2) ESTATES AND TRUSTS.--In the case of an estate or trust--

"(A) the qualified wages for any taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each, and

"(B) any beneficiary to whom any qualified wages have been apportioned under paragraph (A) shall be treated (for purposes of this subpart) as the employer with respect

to such wages. .

"(3) LIMITATIONS WITH RESPECT TO CERTAIN PERSONS.--In the case of--

"(A) an organization to which section 593 applies,

"(B) a regulated investment company or a real estate investment trust subject to taxation under subchapter M (section 851 and following), and

"(C) a cooperative organization described in section 1381(a),

rules similar to the rules provided in subsections (e) and (h) of section 46 shall apply under regulations presribed by the Secretary.

"(g) PHASE OUT OF CREDIT.--The credit specified in subsection (a) will be reduced by 25 percent in the taxable year of the taxpayer in which the twenty-first anniversary of the enterprise zone designation under section 7871 falls, 50 percent in the next subsequent taxable year, 75 percent in the second subsequent taxable year and 100 percent thereafter.

"(h) APPLICATION WITH OTHER CREDITS.--The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter for such taxable year, reduced by the sum of the credits allowable under a section of this subpart having a lower number or letter designation than this section, other than the credits allowable by sections 31, 39, 43, and 44H. For purposes of the preceding sentence, the term "tax imposed by this chapter" shall not include any tax treated as not imposed by this chapter under the last sentence of section 53(a).

"(i) ENTERPRISE ZONE.--The term 'enterprise zone' means an area for which designation as an enterprise zone is in effect under section 7871."

(b) NO DEDUCTION ALLOWED.--

(1) IN GENERAL.--Section 280C (relating to disallowance of deductions for that portion of wages for which credit is claimed under section 40 or 44B) is amended--

(A) by adding at the end thereof the following new subsection:

"(c) Rule for Section 44H and 44I Credits.--No deduction shall be allowed for that portion of the wages or salaries paid or incurred for the taxable year which is equal to the amount of the credit allowable under section 44H (relating to the employment credit for enterprise zone businesses) and section 44I (relating to the credit for employment of certain disadvantaged individuals in enterprise zones). This subsection shall be applied under a rule similar to the rule under the last sentence of subsection (b)."; and

(B) by striking out "or 44B" in the heading and inserting in lieu thereof ", 44B, 44H or 44I".

(2) CONFORMING AMENDMENT.--The table of sections for part IX of subchapter B of chapter 1 is amended by striking out "or 44B." in the item relating to section 280C and inserting in lieu thereof ",44B, 44H, or 44I".

(c) CONFORMING AMENDMENT.--The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting before the item relating to section 45 the following new items:

"SEC. 44H. Credit for Increased Enterprise Zone Employment.

"SEC. 44I. Credit for Employment of Certain Disadvantaged Individuals in Enterprise Zones."

(d)(1) REPORTING REQUIREMENTS.--Subpart C of part III subchapter A of chapter 61 (relating to information regarding wages paid employees) is amended by adding at the end thereof the following new section:

"SEC 6054. REPORTING OF ENTERPRISE ZONE EMPLOYEE CREDITS.--If any individual is a qualified employee of an employer within the meaning of section 44H(d)(1), the employer shall furnish to each such employee a written statement showing the amount of wages paid to such employee. The statement required to be furnished pursuant to this section shall be furnished at such time, shall contain such other information, and shall be in such form as the Secretary may by regulations prescribe. When required by such regulations, a duplicate of any such statement shall be filed with the Secretary."

(2) Section 6652(d) (relating to failure to file information returns) is amended by inserting

after "respect to tips)," the following: "section 6054 (relating to reporting of enterprise zone employee credits),".

(3) Section 6674 (relating to fraudulent statement or failure to furnish statement to employee) is amended by striking "or 6053(b)" each place it appears and inserting in here thereof ",6053(b) or 6054".

(4) The table of sections for such subpart C is amended by adding at the end thereof the following:

"Sec. 6054. Reporting of enterprise zone employee credits.".

(e) EFFECTIVE DATE.--The amendments made by this section shall apply to wages paid after the date of the enactment of this Act in taxable years ending after such date.

SEC. 202. CREDIT FOR ENTERPRISE ZONE EMPLOYEES.

(a) IN GENERAL.--Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable), as amended by section 201, is amended by inserting

immediately before section 45 the following new section.

"SEC. 44J. CREDIT FOR ENTERPRISE ZONE EMPLOYEES.

"(a) IN GENERAL.--In the case of a qualified employee, there is allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 5 percent of the qualified wages for the taxable year.

"(b) "DEFINITIONS.--For purposes of this section--

"(1) QUALIFIED EMPLOYEE.--The term 'qualified employee' means an individual

"(A) who is described in section 44H(d)(1), and

"(B) who is not the employee of the Federal government or any State or subdividion of a State.

"(2) QUALIFIED WAGES.--

"(A) IN GENERAL.--The term 'qualified wages' has the meaning given to the term 'wages' under subsection (b) of section 3306,

attributable to services performed for an employer with respect to whom the employee is a qualified employee, in an amount which does not exceed 1 1/2 times the dollar limitation specified in such subsection.

"(B) EXCEPTION.--The term 'qualified wages' does not include any compensation received from the Federal government or any State or subdivision of a State.

"(3) ENTERPRISE ZONE.--The term 'enterprise zone' means any area with respect to which a designation as an enterprise zone is in effect under section 7871.

"(c) PHASE OUT OF CREDIT.--The credit specified in subsection (a) will be reduced to 3 3/4 percent in the taxable year in which the twenty-first anniversary of enterprise zone designation under section 7871 falls, 2 1/2 percent in the next subsequent taxable year, 1 1/4 percent in the second subsequent taxable year and zero thereafter.

"(d) APPLICATION WITH OTHER CREDITS.--The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter for such taxable

year, reduced by the sum of the credits allowable under a section of this subpart having a lower number or letter designation than this section, other than the credits allowable by sections 31, 39, and 43. For purposes of the preceding sentence, the term 'tax imposed by this chapter' shall not include any tax treated as not imposed by this chapter under the last sentence of section 53(a).".

(b) CONFORMING AMENDMENT.--The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting immediately before the item relating to section 45 the following new item:

"SEC. 44J. CREDIT FOR ENTERPRISE ZONE EMPLOYEES.".

(c) EFFECTIVE DATE.--The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.

Subtitle B--Credits for Investment in Tangible Property in Enterprise Zones.

SEC. 211. INVESTMENT TAX CREDIT FOR ENTERPRISE ZONE PROPERTY

(a) SECTION 38 PROPERTY.--Paragraph (1) of section 48(a) (defining section 38 property) is amended by striking out the period at the end of subparagraph (G) and by inserting in lieu thereof "; or" and the following new subparagraph:

"(H) in the case of enterprise zone property, that portion of the basis which is attributable to qualified enterprise zone expenditures (within the meaning of subsection (q)).".

(b) AMOUNT OF CREDIT.--

(1) IN GENERAL.--Subparagraph (A) of section 46(a)(2) (relating to amount of investment tax credit) is amended by striking out "and" at the end of clause (iii), by striking out the period at the end of clause (iv), by inserting in lieu thereof ",and", and by adding at the end thereof the

following new clause:

"(v) in the case of qualified enterprise zone property, the enterprise zone percentage.".

(2) ENTERPRISE ZONE PERCENTAGE DEFINED.--Paragraph (2) of section 46(a) is amended by adding at the end thereof the following new subparagraph:

"(G) ENTERPRISE ZONE PERCENTAGE.--For purposes of this paragraph--

"In the case of qualified enterprise zone expenditures with respect to:	The enterprise zone percentage is:
Zone Personal Property (within the meaning of section 48(q)(2))	5
New Zone Construction Property (within the meaning of section 48(q)(3))	10

(3) ORDERING RULES.--That portion of paragraph (9) of section 46(a)(9) (relating to special rules in the case of energy property) which preceeds subparagraph (B) is amended to read as follows:

"(9) SPECIAL RULES IN THE CASE OF ENERGY PROPERTY OR ENTERPRISE ZONE PROPERTY.--Under regulations prescribed by the Secretary.--

"(A) IN GENERAL.--This subsection and subsection (b) shall be applied separately-

"(i) first with respect to so much of the credit allowed by section 38 as is not attributable to the energy percentage or the enterprise zone percentage,

"(ii) second with respect to so much of the credit allowed by section 38 as is attributable to the application of the energy percentage to energy property, and

"(iii) third with respect to so much of the credit allowed by section 38 as is attributable to the application of the enterprise zone percentage to enterprise

zone property.".

(4) CONFORMING AMENDMENT.--Section 48(o) (defining certain credits) is amended by adding at the end thereof the following new paragraph:

"(9) ENTERPRISE ZONE CREDIT.--The term 'enterprise zone credit' means that portion of the credit allowable by section 38 which is attributable to the enterprise zone percentage.".

(c) DEFINITIONS AND TRANSITIONAL RULES.--Section 48 (relating to definitions and special rules) is amended by redesignating subsection (q) as (r) and inserting after subsection (p) the following new subsection:

"(q) Enterprise Zone Property.--

"(1) The term 'enterprise zone property' means property which is--

"(A)(i) zone personal property, or

"(ii) new zone construction property,

"(B) not acquired (directly or indirectly) by the taxpayer from a person who is related to the taxpayer (within the meaning of section 267(b) or 318), and

"(C) acquired and first placed in service by the taxpayer in an enterprise zone after the designation under section 7871.

"(2) ZONE PERSONAL PROPERTY DEFINED.--The term 'zone personal property' means section 38 property which is --

"(A) 3-year property, within the meaning of section 168(c)(2)(A);

"(B) 5-year property, within the meaning of section 168(c)(2)(B);

"(C) 10-year property, within the meaning of section 168(c)(2)(C); and

"(D) 15-year public utility property, within the meaning of section 168(c)(2)(E),

which is used by the taxpayer predominantly in the active conduct of a trade or business within an

enterprise zone. Property shall not be treated as 'zone personal property' if it is used or located outside the enterprise zone on any regular basis.

"(3) NEW ZONE CONSTRUCTION PROPERTY DEFINED.--The term 'new zone construction property' means 15-year property described in section 168(c)(2)(D), which is--

"(A) located in an enterprise zone,

"(B) used by the taxpayer predominantly in the active conduct of a trade or business within an enterprise zone, and

"(C) either--

"(i) the construction, reconstruction, rehabilitation, renovation, expansion, or erection of which is completed by the taxpayer after the designation under section 7871, or

"(ii) acquired after such designation if the original use of such

property commences with the taxpayer and commences after such date.

In applying section 46(c)(1)(A) in the case of property described in clause (i), there shall be taken into account only that portion of the basis which is properly attributable to construction or erection after designation.

"(4) ADJUSTMENT TO BASIS.--

"(A) IN GENERAL.--For purposes of this subtitle, if an enterprise zone credit is allowable under this section for any qualified enterprise zone expenditure in connection with property described in paragraph (3), the increase in basis of such property which would (but for this paragraph) result from such expenditure shall be reduced by the amount of the credit so allowable.

"(B) CERTAIN DISPOSITIONS.--If during any taxable year there is a recapture amount determined with respect to any enterprise zone property the basis of which was reduced under subparagraph (A), the basis of such building

(immediately before the event resulting in such recapture) shall be increased by an amount equal to such recapture amount. For purposes of the preceding sentence, the term 'recapture amount' means any increase in tax (or adjustment in carrybacks or carryovers) determined under section 47 (a) (2) (A) (v).

"(5) QUALIFIED ENTERPRISE ZONE EXPENDITURES DEFINED.--The term 'qualified enterprise zone expenditures' means any amount properly chargeable to capital account for enterprise zone property.

"(6) REAL ESTATE RENTAL.--For purposes of this section, ownership of residential, commercial or industrial real property within an enterprise zone for rental shall be treated as the active conduct of a trade or business in an enterprise zone.

"(7) ENTERPRISE ZONE.--The term 'enterprise zone' means an area for which designation as an enterprise zone is in effect under section 7871.".

(c) LODGING TO QUALIFY.--Paragraph (3) of section 48(a) (relating to property used for lodging) is amended--

(1) by striking out "and" at the end of subparagraph (C),

(2) by striking out the period at the end of subparagraph (D) and inserting in lieu thereof "and", and

(3) by adding at the end thereof the following new subparagraph:

"(E) new zone construction property."

(d) RECAPTURE.--Subsection (a) of section 47 (relating to certain dispositions, etc., of section 38 property) is amended by adding at the end thereof the following new paragraph:

"(9) SPECIAL RULES FOR ENTERPRISE ZONE PROPERTY.--

"(i) If, during any taxable year, property with respect to which the taxpayer claimed an enterprise zone credit is disposed of, or in the case of zone personal property otherwise ceases to be section 38 property with respect to the taxpayer, or is removed from the

enterprise zone, converted or otherwise ceases to be enterprise zone property (other than by the expiration or revocation of the designation as an enterprise zone), the tax under this chapter for such taxable year shall be increased by the amount described in subparagraph (ii).

"(ii) The increase in tax under paragraph (i) shall equal the aggregate decrease in the credits allowed under section 38 by reason of section 46 (a) (2) (A) (v) for all prior taxable years which would have resulted solely from reducing the qualified enterprise zone expenditures taken into account with respect to the property by an amount which bears the same ratio to the qualified enterprise zone expenditures as the number of taxable years that the property was held by the taxpayer bears to the applicable recovery period for earnings and profits as set forth in section 312 (k)."

(e) EFFECTIVE DATE.--The amendments made by this section shall apply to expenditures made or incurred after enactment, in taxable years ending after such date, with respect to property acquired and placed in service in an area designated as an enterprise zone under section 7871.

Subtitle C--Reduction in Capital Gain Tax Rates

SEC. 221. CORPORATIONS.

(a) GENERAL RULE.--Subsection (a) of section 1201 (relating to alternative tax for corporations) is amended by striking out paragraph (2) and inserting in lieu thereof the following:

"(2) a tax of 28 percent of the excess (if any) of--

"(A) the net capital gain for the taxable year, over

"(B) the qualified enterprise zone capital gain.".

(b) DEFINITION OF QUALIFIED ENTERPRISE ZONE CAPITAL

GAIN.--Section 1201 is amended by redesignating subsections (b) and (c) as subsections (c) and (d) and by inserting after subsection (a) the following new subsection:

"(b) QUALIFIED ENTERPRISE ZONE CAPITAL GAIN.--For purposes of this section--

"(1) IN GENERAL.--The term 'qualified enterprise zone capital gain' means--

"(A) gain described in section 1222(3),

"(B) attributable to the sale or exchange of qualified property.

"(2) LIMITATIONS.--The term 'qualified enterprise zone capital gain' does not include any gain attributable to the sale or exchange of an interest in a qualified business to the extent attributable to--

"(A) any property contributed to the qualified business within the previous 12 months,

"(B) any interest in any business which

is not a qualified business, or

"(C) any other intangible property not created as part of an active trade or business within an enterprise zone.

"(3) DEFINITIONS.

"(A) The term 'qualified property' means--

"(i) any tangible personal property used by the taxpayer predominantly (within the meaning of section 48(q)(7)) in an enterprise zone in the active conduct of a trade or business in an enterprise zone,

"(ii) any real property located in an enterprise zone used by the taxpayer predominantly in the active conduct of a trade or business in an enterprise zone, and

"(iii) any interest in a corporation, partnership, or other entity if, for the three most recent taxable

years of such entity ending before the date of disposition of such interest (or for such part of such period as the entity has been in existence or the zone has been designated), such entity was a qualified business.

"(B) QUALIFIED BUSINESS.--The term 'qualified business' means any person--

"(i) which is actively engaged in the conduct of a trade or business within an enterprise zone during the period described in subparagraph (A)(iii),

"(ii) with respect to which at least 80 percent of such person's gross receipts for the taxable year are attributable to the active conduct of a trade or business within an enterprise zone, and

"(iii) with substantially all of its tangible assets located within an enterprise zone.

"(C) REAL ESTATE RENTAL--For purposes of this section, ownership of residential, commercial or industrial real property within an enterprise zone for rental shall be treated as the active conduct of a trade or business in an enterprise zone.

"(D) PROPERTY REMAINS QUALIFIED AFTER ZONE DESIGNATION CEASES TO APPLY.--

"(i) IN GENERAL.--The treatment of property as qualified property under paragraph (A) shall not terminate when on the designation of the enterprise zone in which the property is located or used expires or is revoked.

"(ii) EXCEPTIONS.--Clause (i) shall not apply after the first sale or exchange of property occurring after the designation expires or is revoked.

"(E) ENTERPRISE ZONE.--The term 'enterprise zone' means an area with respect to which a designation as an enterprise zone is in effect under section 7871.".

SEC. 222. TAXPAYERS OTHER THAN CORPORATIONS.

Subsection (a) of section 1202 (relating to deduction for capital gains) is amended to read as follows:

"(a) DEDUCTION ALLOWED.--

"(1) IN GENERAL.--If for any taxable year a taxpayer other than a corporation has a net capital gain, there shall be allowed as a deduction from gross income an amount equal to the sum of--

"(A) 100 percent of the lesser of--

"(i) the net capital gain, or

"(ii) the qualified enterprise zone capital gain (as defined in section 1201(b)), plus

"(B) 60 percent of the excess (if any) of--

"(i) the net capital gain, over

"(ii) the amount of the net capital

gain taken into account under subparagraph (A)."

SEC. 223. MINIMUM TAX.

(a) Paragraph (9) of section 57(a) (relating to tax preference for capital gains) is amended by adding at the end thereof the following new subparagraph:

"(E) For purposes of this paragraph, gain attributable to qualified enterprise zone capital gain (within the meaning of section 1201(b)) shall not be taken into account."

(b) It is the sense of the Congress that if the minimum tax is modified or replaced, enterprise zone capital gain will be excluded in computing the minimum taxable income.

SEC. 224. EFFECTIVE DATE.

The amendments made by this subtitle shall apply to sales or exchanges after the date of enactment of this Act.

Subtitle D--Extension of Carryover Period

SEC. 241. EXTENSION OF NET OPERATING LOSS CARRYOVER PERIOD.

(a) IN GENERAL.--Paragraph (1) of section 172(b) (relating to net operating loss carrybacks and carryovers) is amended by adding at the end thereof the following new subparagraph:

"(J) In the case of any taxpayer engaged in the conduct of an active trade or business within an enterprise zone for any taxable year, any net operating loss for such taxable year attributable to such business shall be a net operating loss carryover to each following taxable year that ends before the expiration or revocation of the designation of the area as an enterprise zone under section 7871 (or to each of the 15 years following the taxable year of loss, if longer).".

(b) TECHNICAL AMENDMENT.--Subparagraph (B) of section 172(b)(1) is amended by striking out "and (I)" and inserting in lieu thereof "(I), and (J)".

SEC. 242. EXTENSION OF CREDIT CARRYOVER PERIOD.

(a) IN GENERAL.--Paragraph (1) of section 46(b) (relating to carryback and carryover of unused credits) is amended by adding at the end thereof the following

new subparagraph:

"(E) In the case of an unused credit which is a credit attributable to the enterprise zone percentage, section 44H (relating to the credit for increased enterprise zone employment) or section 44I (relating to the credit for employment of certain disadvantaged individuals in an enterprise zone), this paragraph shall be applied by substituting 'until the designation as an enterprise zone under section 7871 expires or is revoked (or 15 years, if longer)' for '15'.".

Subtitle E--Rules Relating to Industrial Development Bonds

SEC. 251. SMALL ISSUE INDUSTRIAL DEVELOPMENT BONDS.

Notwithstanding any subsequent amendments affecting obligations described in section 103(b)(6) of the Internal Revenue Code of 1954 (other than amendments to section 103(c) relating to arbitrage, or amendments relating to registration of such obligations), section 103(b)(6) as in effect on January 1, 1982 shall apply to obligations all or the major portion of the proceeds of which are to be used directly for any land or depreciable property which is located in an enterprise zone (within the meaning of section 7871 of the Internal

Revenue Code of 1954). This section shall apply only with respect to obligations which are issued after the date an area is designated as an enterprise zone and before such designation terminates, provided the proceeds are used prior to the date the area ceases to be an enterprise zone.

Subtitle F--Sense of the Congress With Respect to Tax Simplification.

Sec. 261. TAX SIMPLIFICATION.

It is the sense of the Congress that the Secretary of the Treasury should in every way possible simplify the administration and enforcement of any provision of the Internal Revenue Code of 1954 added to, or amended by, this Act.

TITLE III--REGULATORY FLEXIBILITY

DEFINITION OF SMALL ENTITIES IN ENTERPRISE ZONES FOR PURPOSES OF ANALYSIS OF REGULATORY FUNCTIONS

SEC. 301. Section 601 of title 5, United States Code, is amended by --

(1) striking out "and" at the end of paragraph (5); and

(2) striking out paragraph (6) and inserting in lieu thereof the following:

"(6) the term 'small entity' means --

"(A) a small business, small organization or small governmental jurisdiction within the meaning of paragraphs (3), (4), and (5) of this section, respectively; and

"(B) any qualified business; any governments which designated and approved an area which has been designated as an

enterprise zone (within the meaning of section 7871 of the Internal Revenue Code) to the extent any rule pertains to the carrying out of projects, activities or undertakings within such zone; and any non-for-profit enterprise carrying out a significant portion of its activities within such a zone; and

"(7) the term 'qualified business' means any person, corporation or other entity --

"(A) which is engaged in the active conduct of a trade or business within an enterprise zone (within the meaning of section 7871 of the Internal Revenue Code of 1954); and

"(B) for whom at least 50 percent of its employees are qualified employees (within the meaning of section 44H(d) of such Code).".

WAIVER OR MODIFICATION OF AGENCY RULES IN ENTERPRISE ZONES

SEC. 302. (a) Chapter 6 of title 5, United States Code, is amended by redesignating sections 611 and 612 as sections 612 and 613, respectively, and inserting the

following new section immediately after section 610:

"SEC. 611. WAIVER OR MODIFICATION OF AGENCY RULES IN ENTERPRISE ZONES

"(a) Upon the written request of the governments which designated and approved an area which has been designated as an enterprise zone under section 7871 of the Internal Revenue Code of 1954, an agency is authorized, in order to further the job creation, community development, or economic revitalization objectives of the zone, to waive or modify all or part of any rule which it has authority to promulgate, as such rule pertains to the carrying out of projects, activities or undertakings within the zone.

"(b) Nothing in this section shall authorize an agency to waive or modify any rule adopted to carry out a statute or Executive Order which prohibits, or the purpose of which is to protect, persons against discrimination on the basis of race, color, religion, sex, marital status, national origin, age or handicap; or

"(c) A request under subsection (a) shall specify the rule or rules to be waived or modified

and the change proposed, and shall briefly describe why the change would promote the achievement of the job creation, community development or economic revitalization objectives of the enterprise zone. If a request is made to an agency other than the Department of Housing and Urban Development, the requesting governments shall send a copy of the request to the Secretary of Housing and Urban Development at the time the request is made.

"(d) In considering a request, the agency shall weigh the extent to which the proposed change is likely to further job creation, community development or economic revitalization within the enterprise zone against the affect the change is likely to have on the underlying purposes of applicable statutes in the geographic area which would be affected by the change. The agency shall approve the request whenever it finds, in its discretion, that the public interest which the proposed change would serve in furthering such job creation, community development or economic revitalization outweighs the public interest which continuation of the rule unchanged would serve in furthing such underlying purposes. The agency shall not approve any request to waive or modify a rule if that waiver or modification would --

"(1) directly violate a statutory requirement (inlcuding any requirement of the Act of March 3, 1981 (commonly known as the "David-Bacon Act") or of the Fair Labor Standards Act of 1938); or

"(2) be likely to present a significant risk to the public health, including environmental health or safety, such as a rule with respect to occupational safety or health, or environmental pollution.

"(e) If a request is disapproved, the agency shall inform the requesting governments in writing of the reasons therefor and shall, to the maximum extent possible, work with such governments to develop an alternative, consistent with the standards contained in subsection (d).

"(f) Agencies shall discharge their responsibilities under this section in an expeditious manner, and shall make a determination on requests not later than 90 days after their receipt.

"(g) A waiver or modification of a rule under

subsection (a) shall not be considered to be a rule, rulemaking, or regulations under chapter 5 of this title. To facilitate reaching its decision on any requested waiver or modification, the agency may seek the views of interested parties and, if these views are to be sought, determine how they should be obtained and to what extent, if any, they should be taken into account in considering the request. The agency shall publish a notice in the Federal Register stating any waiver or modification of a rule under this section.

"(h) In the event that an agency proposes to amend a rule for which a waiver or modification under this section is in effect, the agency shall not change the waiver or modification to impose additional requirements unless it determines, consistent with standards contained in subsection (d), that such action is necessary.

"(i) No waiver or modification of a rule under this section shall remain in effect for a longer period than the period for which the enterprise zone designation remains in effect for the area in which the waiver or modification applies.

"(j) For purposes of this section, the term 'rule' means (1) any rule as defined in section 511(4) of this title or (2) any rulemaking conducted on the record after opportunity for an agency hearing pursuant to sections 556 and 557 of this title.".

(b) The table of sections for such chapter is amended by redesignating "SEC. 611." AND "SEC. 612." AS "SEC. 612." AND "SEC. 613.", respectively, and inserting the following new item immediately after "Sec. 610.":

"Sec. 611. Wavier or modification of agency rules in enterprise zones.".

(c) Section 601(2) of such title is amended by inserting "(except for purposes of section 611)" immediately before "means".

(d) Section 613 of such title as redesignated by subsection (a) of this section is amended by --

(1) inserting "(except section 611)" immediately after "chapter" in subsection (a); and

(2) inserting "as defined in section 601(2)" immediately before the period at the end of the first sentence of subsection (b).

TITLE IV - ESTABLISHMENT OF FOREIGN-TRADE ZONES IN ENTERPRISE ZONES

SEC. 401 (a) In processing applications for the establishment of foreign-trade zones pursuant to an Act entitled "To provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States, to expedite and encourage foreign commerce, and for other purposes", approved June 18, 1934, the Foreign-Trade Zone Board shall consider on a priority basis and expedite, to the maximum extent possible, the processing of any application involving the establishment of a foreign-trade zone within an enterprise zone designated pursuant to section 7871 of the Internal Revenue Code of 1954.

(b) In processing applications for the establishment of ports of entry pursuant to an Act entitled "An Act making appropriations for sundry civil expenses of the Government for the fiscal year ending June thirtieth, nineteen hundren and fifteen, and for other purposes", approved August 1, 1914, the Secretary of the Treasury shall consider on a priority basis and expedite, to the maximum extent possible, the processing of any application involving the establishment of a port of entry which is necessary to permit the establishment

of a foreign-trade zone within an enterprise zone.

(c) In evaluating applications for the establishment of foreign-trade zones and ports of entry in connection with enterprise zones, the Foreign-Trade Zone Board and the Secretary of Treasury shall approve the applications to the maximum extent practicable, consistent with their respective statutory responsibilities.